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June 12, 2007

Winston Hickox, Chair  
CalEPA Market Advisory Committee  
c/o California Environmental Protection Agency  
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**RE: Market Advisory Committee Recommendations**

Dear Chair Hickox:

On behalf of the DuPont Company, I am pleased to offer the following comments regarding the proposals contained in the June 1, 2007 "Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California" from your Market Advisory Committee.

DuPont is a science company committed to creating sustainable solutions essential to a better, safer, healthier life through innovative in markets ranging from agriculture to transportation to construction. We take climate change seriously, and began reducing greenhouse gas emissions from our operations in 1991. Since then we have increasingly oriented our portfolio of businesses to enable societies around the globe to take on the challenges of sustainability, generally, and climate change in particular.

**THE LARGER CONTEXT:** Climate change is a global challenge that will require broad and coordinated action across all sectors of the economy. California and other states are playing an important leadership role in advancing the policy dialogue in the United States. However, DuPont's preference remains for a meaningful federal system rather than state-by-state initiatives. We believe that a federal system will provide a broader market to drive the most cost-effective emission reductions, while also limiting the regional competitive disadvantages that may result from multiple state or regional climate programs operating at once within the U.S. In that context we urge that the Committee keep as a top priority the design of a system than can integrate with and would not impede the development of a federal cap-and-trade program. DuPont is a founding member of a pioneering alliance of major corporations and leading environmental NGOs, the U.S. Climate Action Partnership (USCAP), which urges such responsible action at the Federal level, and which has assumed a leading role in shaping national policy on climate change. USCAP has framed a series of recommendations for national action and are in the process of elaborating details of those proposals. We commend these ongoing efforts to your attention.

**IMPORTANCE OF MARKET MECHANISM:** DuPont strongly supports integration of a market-based emissions trading system in any broad regulatory effort to achieve emission reductions. That conclusion stems from both our past experience in early voluntary markets such as the Chicago Climate Exchange, and our forward-looking commitments to provide products and services that will facilitate the long-term climate solution. In the context of California's intent to significantly reduce its greenhouse gas emissions, we continue to urge that an emissions trading system be integral to those efforts, and believe the report of your Committee has done an excellent job of documenting both the rationale and trade-offs inherent in meeting that need. We were pleased that the State recognized the importance of market mechanisms by establishing such a qualified Market Advisory Committee. It is important for California that this initiative is bearing fruit – this is a well-informed report.

## MAJOR RECOMMENDATIONS OF THE MAC REPORT

- DuPont agrees with the MAC's conclusion that the scope must be broad and be able to link to other state/regional markets. Capturing emissions from all major emitting sectors will be very important. We believe that an effective program integrates the use of market mechanisms (e.g. cap-and-trade) for fixed facilities, with additional policies and measures (e.g. performance and efficiency standards) for the transportation and building sectors. While different policy tools may be more appropriate in certain sectors, it is critical that the system be developed as a whole, and that more work is done to identify ways to create appropriate linkages between different sectors (e.g. transportation and fixed facilities). We believe that a system should allow for the potential for inter-sector trading in the longer-term as the differential price impacts between sectors lessens.
- DuPont recognizes the economic appeal of an auction system for allocation of emission credits, and direction of those revenues specifically to better enable transition in the economy. However, implementing an auction in a single state system could exacerbate the competitive disadvantage to those regulated entities that face national competition, and the additional economic burden of front-end loading capital to secure credits in an auction could increase the potential for leakage. Therefore, while an auction system may be appropriate in other contexts, we support the Committee's recommendation not to utilize an auction system at the outset of this process.
- DuPont is supportive of the use of a robust offset program. Such a program is crucial to enlisting innovation broadly throughout the economy – both covered and uncovered sectors. Of course, such a program must be robust in assuring that the greenhouse gas reductions are real and in assuring the integrity of its credit system. This is doable, however, and we support efforts to assure integration of a strong offset system in any California market.
- We believe the integration of non-CO2 gases in a California market system is also workable and support this aspect of the recommendations.

We look forward to working with the State in advancing the recommendations evolving from your Committee. We view a workable emissions-trading program as vital to the minimizing economic drag associated with any targeted reduction level – assuring that limited capital will be effectively channeled to least cost options for real reductions.

We urge your consideration of these comments and look forward to working with you and the Climate Action Team as the State's climate action process advances. Please don't hesitate to contact us if you have any questions about the above.

Sincerely,

(transmitted via email)

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